

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6414

BILL NUMBER: HB 1177

NOTE PREPARED: Dec 4, 2007

BILL AMENDED:

SUBJECT: Tax Credit for Anhydrous Ammonia Additives.

FIRST AUTHOR: Rep. Duncan

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a state tax credit to a taxpayer that purchases an anhydrous ammonia additive to treat the anhydrous ammonia in possession of the taxpayer in order to make the anhydrous ammonia unsuitable for use in the manufacture of methamphetamine.

Effective Date: January 1, 2009.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this credit. The Department's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary:* The bill could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax (FIT), and the Insurance Premiums Tax (IPT). Given usage estimates from 2006, for every 25% of credits claimed for the purchase of anhydrous ammonia treated to prevent theft or use in methamphetamine production could potentially total \$270,000 to \$780,000. However, the annual fiscal impact from the credit would depend on the extent anhydrous ammonia usage increases in the future due to an increase in corn acreage. The credit is effective beginning in tax year 2009, thus the fiscal impact is expected to begin in FY 2010.

Background: The bill establishes a nonrefundable state tax credit for individual and corporate taxpayers who purchase anhydrous ammonia that contains an additive identified to render it unsuitable in the production of methamphetamine. The credit is equal to the cost of the anhydrous ammonia additive, and may be taken

against the taxpayer's AGI tax, FIT, or IPT liability. Any unused credit may not be carried over, carried back, refunded, sold, or transferred.

Revenue from the Corporate AGI tax, the Insurance Premiums Tax, and the Financial Institutions Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the Individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

Anhydrous ammonia is used as a fertilizer. According to the State Chemist's office, 240,000 tons of anhydrous ammonia were purchased and used in Indiana in 2006. The usage reported for the first six months of 2007 (January - June) was approximately 264,000 tons. This increase in usage is a direct result of the increase in corn acreage in 2007 as corn requires a high level of nitrogen. A full usage report for 2007 will not be available until early March. However, given the usage report from the first 6 months of 2007, the fiscal impact may exceed the estimated \$780,000. This analysis does not factor in potential behavioral changes in the purchase and use of anhydrous ammonia containing appropriate additives which may occur as a result of the credit against tax liability. To the extent that the tax credit provides an incentive for the purchase and use of additive-containing anhydrous ammonia, there could be an additional reduction in revenue which is indeterminable.

There are currently two additives on the market that can be used to treat anhydrous ammonia: *GloTell* and *Calcium Nitrate*. *GloTell*-treated anhydrous ammonia lowers the quality of the methamphetamine or amphetamine produced to approximately 60% of what it would be otherwise and costs about \$4.50 per ton. *Calcium Nitrate* renders anhydrous ammonia completely unusable in methamphetamine or amphetamine production, but costs between \$9 and \$13 per ton. This credit would offset the additional cost to the user, regardless of which additive is used, since the credit is equal to the cost of the anhydrous ammonia additive.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

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